

CONFORMED COPY

TF024100

AB Project Agreement

(Microenterprise Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ARAB BANK PLC

Dated April 14, 1997

TF024100

AB PROJECT AGREEMENT

AGREEMENT, dated April 14, 1997 between the INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator of the Trust Fund for Gaza and West Bank established on October 19, 1993 by Resolution No. 93-11 and IDA 93-7, as amended by Resolution No. 95-6 and IDA 95-3, of the Executive Directors of the International Bank for Reconstruction and Development and the International Development Association (the Administrator) and ARAB BANK PLC (AB).

WHEREAS (A) by the Trust Fund Credit Agreement of even date herewith between the Palestine Liberation Organization (the Borrower) and the Administrator, the Administrator has agreed to lend to the Borrower an amount in various currencies equivalent to five million dollars (\$5,000,000) on the terms and conditions set forth in the Trust Fund Credit Agreement, but only on condition that AB agree to undertake such obligations toward the Administrator as are set forth in this Agreement; and

(B) by a subsidiary loan agreement to be entered into between the Palestinian Authority (on behalf of the Borrower) and AB, a portion of the proceeds of the credit provided for under the Trust Fund Credit Agreement will be made available to AB on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS AB, in consideration of the Administrator's entering into the Trust Fund Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Trust Fund Credit Agreement and in the General Conditions (as this term is defined in Section 1.01 of the Trust Fund Credit Agreement) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project; Management and Operations of AB

Section 2.01. AB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Trust Fund Credit Agreement, and, to this end, shall carry out Parts A (i) and B (i) of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Respective Charter and Respective Statement of Policy.

Section 2.02. (a) AB undertakes that, unless the Administrator shall otherwise agree Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) AB shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Administrator and of AB; (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and (iii) achieve the purposes of Parts A (i) and B (i) of the Project.

Section 2.03. (a) AB shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance) in respect of the Project Agreement and Parts A (i) and B (i) of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, AB shall: (i) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Administrator and AB, a plan for the achievement of the objectives of Parts A (i) and B (i) of the Project; and (ii) afford the Administrator a reasonable opportunity to exchange views with AB on said plan.

Section 2.04. AB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Administrator shall otherwise agree, AB shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) AB shall, at the request of the Administrator, exchange views with the Administrator with regard to the progress of the Parts A (i) and B (i) of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) AB shall promptly inform the Administrator of any condition which interferes or threatens to interfere with the progress of Parts A (i) and B (i) of the Project, the accomplishment of the purposes of the Credit, or the performance by AB of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) AB shall maintain procedures and records adequate to monitor and record the progress of Parts A (i) and B (i) of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of AB.

(b) AB shall: (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including those for its respective Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator; (ii) furnish to the Administrator, as soon as available but in any case not later than six (6) months after the end of each such year (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and (iii) furnish to the Administrator such other information concerning said records, accounts and financial statements as well as the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals of the proceeds of the Credit allocated from time to time to Category (1), set forth in the table in paragraph 1 of Schedule 1 to the Trust Fund Credit Agreement, were made on the basis of statements of expenditure, AB shall: (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures; (ii) retain, until at least one (1) year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable the Administrator's representatives to examine such records; and (iv) ensure that such records and accounts are dealt with in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Trust Fund Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Administrator and of AB thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Trust Fund Credit Agreement shall terminate;
- or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Trust Fund Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Administrator shall promptly notify AB of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this

Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Administrator:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For AB:

Arab Bank PLC
Regional Management
P.O. Box 1476
Ramallah, West Bank

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of AB may be taken or executed by its Regional Manager, or by such other person or persons as the Regional Manager shall designate in writing, and the Regional Manager shall furnish to the Administrator sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument. IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Al Ram, West Bank and Gaza, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Odin K. Knudsen

Vice President
Middle East and North Africa Region

ARAB BANK PLC

By /s/ Shurry Bishara

Authorized Representative

SCHEDULE 1

Implementation Program

1. AB shall make Sub-loans to Microenterprises for Investment Projects pursuant to its Respective Statement of Policy on the basis of criteria and in accordance with procedures acceptable to the Administrator, including that:

(a) each Sub-loan shall be made only to a Microenterprise which shall have established to the satisfaction of AB that: (i) it is creditworthy; and (ii) it has

the ability to carry out the Investment Project in an efficient manner; and

(b) each Sub-loan shall be made only for an Investment Project which AB has determined to be technically feasible and commercially, economically and financially viable and to be in accordance with the relevant safety, health and environment rules and regulations applicable in the West Bank and Gaza.

2. Any Sub-loan shall have a maturity of more than one (1) month, but less than five (5) years, and shall be made on such other terms and conditions, including those relating to interest rates and other charges determined in accordance with AB's lending policies and practices.

3. AB shall ensure that:

(a) individual Sub-loans shall not exceed the equivalent of \$30,000 each; and

(b) at least 20% of the proceeds of the Credit allocated from time to time to Category (1), set forth in the table in paragraph 1 of Schedule 1 to the Trust Fund Credit Agreement, shall be used for extending Sub-loans in an amount of \$10,000 equivalent or less.

4. Sub-Loans shall be made on terms whereby AB shall obtain, by written contract with the Microenterprise or by other appropriate legal means, rights adequate to protect its interests and those of the Administrator, including, the right to:

(a) require the Microenterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Administrator if the Administrator shall so request, such goods, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) obtain all such information as the Administrator shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Microenterprise and to the benefits to be derived from the Investment Project; and

(e) suspend or terminate the right of the Microenterprise to the use of the proceeds of the Credit upon failure by such Microenterprise to perform its obligations under its contract with AB.

SCHEDULE 2

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (1) set forth in the table in paragraph 1 of Schedule 1 to the Trust Fund Credit Agreement;

(b) the term "eligible expenditures" means payments made by AB on account of payments made by a Microenterprise under a Sub-loan to meet the reasonable cost of goods and services required for Investment Projects and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to the Trust Fund Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$200,000 to be withdrawn from the Credit Account and deposited into the Special Account

pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Administrator has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, AB shall, on behalf of the Borrower, furnish to the Administrator a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as AB shall have requested.

(b) (i) For replenishment of the Special Account, AB shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.

(ii) Prior to or at the time of each such request, AB shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as AB shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Administrator from the Credit Account under the eligible Category, and in the equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by AB out of the Special Account, AB shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of the Trust Fund Credit Agreement;

(b) if AB shall have failed to furnish to the Administrator, within the period of time specified in Section 3.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Category, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to Investment Projects financed through Sub-loans made by AB, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Category shall follow such procedures as the Administrator shall specify by notice to AB. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Administrator, AB shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until AB has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, AB shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) AB may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

